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HSIC.OQ - Henry Schein Inc at Leerink Partners Healthcare Crossroads Conference

EVENT DATE/TIME: MAY 29, 2024 / 4:20PM GMT

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PRESENTATION

Michael Aaron Cherny *- Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

Great. Good morning, everyone, I think it's still morning, welcome to the session of the Leerink Healthcare Crossroads Conference. I'm Mike Cherny, the healthcare tech and distribution analyst. But much more importantly, we have the Henry Schein management team here, Ron South, a longtime exec and the CFO. We also have Graham Stanley and Susan Donofrio in the audience for us. I think we're just going to hop right into questions.

Ronald N. South *- Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Please do.

QUESTIONS AND ANSWERS

Michael Aaron Cherny *- Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

I don't think we have anything we need to prepare about. Last few quarters have been a little odd in your Dental business. I mean you have moving pieces, I think a lot more positive trends that people anticipate on base-level consumables, on some of the areas and value implant areas that you play in importantly, and we're going to touch on some of your portfolio changes, but obviously, against the backdrop of the cybersecurity incident, which took a chunk of your revenue out for completely abnormal reasons. Where do you think demand sits more from an underlying basis before you get into some of the [growth year] categories in your book of business right now, and especially coming off the back of the cyber incident recovery and how customers are coming to you for their current volume needs.

Ronald N. South *- Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Certainly, I think what we're experiencing and what we've kind of seen in the market is that, that kind of core fundamental merchandise is staying relatively flat, right? I think there's still some growth on the specialty side. You have to kind of dissect it, though, you have to kind of look at -- people want to say, well, what's happening in implants. In implants, you have to look at, are you talking about [full arch], are you talking about individual implants? Are you talking about specialty -- or I'm sorry, a premium price versus value price? And there, you can -- those dynamics are impacting the market somewhat.

But we feel like there is kind of a base of demand out there that has created some stability to the dental markets. It's just a question of how do we kind of build on that base to get better growth going forward. We are experiencing a little bit of -- you see some movement from some manufactured brands to others, perhaps, down to private label that will impact that top line, but we still get decent gross profit dollars out of that where we get better margins.

So it's easy to get hyper focused on the top line, but we consider gross profit dollars to be important as well. And that's on both the core merchandise as well as on specialty. To the extent that we're selling more value implants that still gives us some pretty good margin as well.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And I'm going to dive into the specialty side in a bit, but I want to stick on kind of the core dental as we know, on the merchandise side, I'm happy you mentioned private label because that's been something that's been the keystone of Schein for as long as I've known your business. As you think about the discussions going on now with customers on the demand side, how much is private label continuing to grow as a focal point for them from a pull perspective versus how much are your sales reps going out with the push dynamic given some of the lack of differentiation that you'll see on branded products in the market?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes. I would still say it's more pull than push at this point. And part of that is, historically, we have not gone out and lead with private label. We want to maintain that balanced relationship with our manufacturing partners. But a topic that came up, quite frankly, frequently during the higher inflationary period was a lot of manufacturers got pretty aggressive with their price increases.

We weren't going to lose the sale, if we had a customer balking at a price increase then we could steer them to something that was lower priced. We made sure our manufacturer partners were aware of that when they would let them know there were some price increases that may be difficult for us to pass on. But I do think it is more of a pull. The exception of that can be with some of our larger DSO customers who are looking for competitive pricing on certain merchandise. And for us to be able to provide that pricing, it could be that we have to offer them the private label in order to get to that pricing. Quite frankly, they're okay with that.

They like that. We're meeting with a customer not that long ago, who told us, I wish you guys had more available in private label. So they're happy with the quality of the product they get, they're happy with the pricing they get. That's where you might see a little more of a push. But again, that's so that we can kind of protect our own base of business with those types of customers.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

It should be passed along to your business development team. And I'm glad you brought up the DSOs as well because I think there's been -- DSO has been growing as a percent of share for, again, as long as I've known Schein. I think it's a bit of a lack of understanding of DSO economics to Henry Schein as a business. And you talked about private label. I know there's also selling cost. Can you give puts and takes on the health of why DSOs are important to you and the moving pieces that you do see, I'm not asking for specific numbers, but underlying why the margin structure or the margin capture in DSOs which has been, on a dollar basis, isn't as drastically different as people think.

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes. No, it is a dynamic that perhaps is not completely understood and one that is important to explain, especially the larger DSOs. It's a very strategic relationship with them. It's not a race to the bottom of pricing in terms of how cheaply can we sell them a bag of cotton balls or a box of gloves. It's really about how can we help them make their practices more profitable? How can we help them grow their practices at a rate that exceeds market. And that starts with -- obviously, the negotiations typically start with what can you -- how can you provide me product at a competitive price from there, it might be, okay, we can do that but we want you to accept private label.

And by the way, we also want you to buy specialty products from us, our specialty products, our implants, our endodontic products, our orthodontic products are all self-manufactured. We're getting manufacturers margins on those products. So if we can move them to our specialty products, we can provide them with private label.

And then also, to the extent a lot of -- Heartland as an example, they like to have their practices on a common technological platform. To the extent we can move them to Dentrix, our practice management software then -- now you're really getting some scale. Even on the distribution side, with the merchandise, we typically because it -- the way the contract is formed, we're not paying commissions to reps. So while we might have a smaller gross margin, we also have a more efficient delivery. And so we can still protect that operating margin when all is said and done, especially as we increase the sale of specialty products and our technology offerings to them.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

I want to touch on equipment here because I know that's been a big variable point across the entire market recently. This is not the first time that we've seen equipment cycles, whether it's product driven, whether it's macro driven, it seems to be like a bit of both going on right now. And so can you give us a current lay of land on where you're seeing the strongest parts of equipment demand and where you're seeing the potential embers for a recovery on some of the areas around basic or some of the other high-tech software areas and how they could be -- could come back over time?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Certainly. So I think on equipment, it's important to kind of really not isolate but kind of separate standard equipment from high-tech equipment because it can be -- they are impacted by different things in the market. For us, about 2/3 of our equipment revenue comes from standard equipment, the other 1/3 from high-tech equipment. What we saw coming out of the pandemic was a greater demand for standard equipment that was largely driven by practices who were expanding on a post-pandemic basis. There was a lot of movement of patients and a lot of disruption to the end market that occurred coming out of the pandemic that I think has been kind of underestimated by people.

A lot of patients changed dentists from a dentist close to where they work to a dentist that was close to where they live if they were starting to work from home more. So you had a greater churn of patients in the end market. That created a lot of opportunity for some practices to expand, to renovate to do what they did. In many quarters, we saw double-digit growth in standard equipment over the course of '21, '22 and into '23, in some cases. So that market has now kind of stabilized and we think standard equipment will -- those growth rates will be pretty flat for the balance of the year.

But if you look at that, where were you in 2019 on standard equipment versus where you are now, it's a higher base, that CAGR is still quite good on standard equipment. High-tech equipment, conversely, we saw some disruptors come into just high-tech equipment over that same period of time. Specifically, you had low-cost scanners being introduced to the market that really brought down the average selling price on scanners across the board.

We've seen over the last couple of years very good volume growth on scanners, but it hasn't translated to revenue growth for us because those ASPs were lower than they had been historically. Those ASPs are now stabilizing, and we're starting to see some actual revenue growth with scanners that -- for example, we had very good growth in the first quarter. And as long as there's not another big price decrease that comes through or somebody else entering the market at a significantly lower price, we think that has stabilized at this point. The other disruptor on the high tech side has been the introduction of 3D printers into the market.

3D printers, you can buy a 3D printer for -- a premium one for $15,000. If your alternative is you're thinking about a chairside mill for $50,000 or $60,000 or a 3D printer, a lot of practices are willing to take that -- make that initial investment in a 3D printer. The question becomes, what's the scope of applications going to be. And so what we've seen is, you're now seeing that you can make crowns with 3D printers. I think there's still some wait and see in the market as to what's the viability of those crowns going to be.

Are they going to be -- have a long-term life such as a crown that's being made in the lab right now or what's going to happen with that? But there's more and more materials that are becoming available 3D printers that could make it a more attractive proposition for the practices. So as a result, you're getting growth in 3D printers. Chairside mills kind of have stabilized a little bit. They really did come down. Most of the chairside mills that we've been selling have been replacement mills. You don't see a lot of practices making that initial investment in a mill, but we are still selling some chairside mills, and we actually had some growth in the first quarter on chairside mills as well.

So I think what we mentioned in our call about 3 weeks ago was that, really, the equipment growth that we saw in the first quarter came from that CAD/CAM and CAD/CAM related type of equipment, scanners, 3D printers and chairside mills. And we think that particular subcategory can give us some equipment growth in the balance of the year.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

So 2 follow-ups, I feel like it's an earnings call by saying that. Just want to make sure I heard you right, basic equipment revenue guidance is flattish rest of the year?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

Okay. Cool. And then on the scanner side in particular, I think it was well documented that whole dynamic of the differential price points and the lower-cost scanners and it fueled the multiyear adoption cycle. You said you had growth, but where do you think we are from a penetration rate on stand-alone scanners right now versus the applicable market? Because obviously, there's still going to be plenty of labs that don't do -- plenty of dentists don't do enough volume where all the work is still going to go through the labs.

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

So I think on scanners, while it's becoming a more expected standard by patients, there are still a lot of dentists out there using impression material, right? So I think the penetration, there's still plenty of opportunity. You'll also see, I think, especially at the more attractive pricing now that you have with scanners, you're seeing practices add scanners. Maybe a practice had 4 chairs but only 1 scanner. Maybe they bought 3 more, now they have 4 scanners, they have a scanner per chair. But there's still plenty of penetration to be done there.

I think what will be interesting to see, are we going to get greater innovation with scanners going forward? Will there be a reason for someone to stop using the scanner they have and to go and to buy another scanner because it's better -- that has better features. I think that's innovation, quite frankly, that the market is waiting for right now. And you're seeing some of that now, you're seeing some of that start to come out, right?

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And maybe this is just me not being overly technophile, but I find the scanner innovation to be pretty solid right now. The fact that I've shown up in your booth at your Dental Show, and I can do a scan myself...

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

They're easier to use, yes, they are easy to use.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

So where would innovation come? Because I always think about innovation more in the workflow than on the product...

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

It would be more the workflow and the interoperability of that workflow, right? So we're really -- we have a product that is really agnostic to -- from an interoperability perspective, any scanner can feed into that -- into the workflow and then update records, send an image to a lab or send an image to a 3D printer, send an image to a chairside mill. And that's important that you make that as efficient as possible for the practitioner, you want that to be 2 or 3 clicks and you move on not waiting to download something, not waiting to -- you have to go back in and update information along the way.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And just last question for now on instrumentation and equipment. You hear from your sales reps, you hear from the field, is there anything that you think right now or your customers right now is missing from an innovation perspective they want to see move faster and whether that's 3D printing or something else, like I'm trying to think of what could be the next many or significant super cycle products beyond replacement?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes. I think that the ongoing efficiencies that the practices can derive from digital dentistry is probably -- continues to be that opportunity where you can, one, provide better care to the patient. You can also -- in a perfect world, you can see more patients over the course of the day because you're able to get through things more quickly. Therefore, there's a return on that investment of that high-tech equipment.

The pain points in the practices right now are more around the administration of the practice than the operations of the practice, I would say. If you sat down with a group of dentists and you wanted to start talking to them about what are some of the more challenging things you have. It's not going to take you very long in that conversation for them to start talking about dealing with the payers, dealing with understanding the patient's eligibility for care when they initially come in, those are all things that really create inefficiencies in the practice.

They end up with their front office making a lot of phone calls to insurance companies and doing things that quite frankly can really slow down that revenue cycle for them. That's an area of emphasis we've been really working with our customers on in an effort to kind of improve the flow of information and that kind of broader revenue cycle management for them.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And maybe we'll stick there for a second because obviously, you have a wide portfolio of leading software Internet-enabled brands led obviously by Dentrix, which is quasi-ubiquitous across the product management side. Where have you seen the biggest lags -- it's been a few years now since the Internet Brands merger, where have you seen the biggest lags for you to pick up incremental wallet share, mind share of your customers on that technology and obviously, that brings nice margin accretion to the enterprise as a whole?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes. I would say, most recently, it would be on that revenue cycle management piece, especially on the -- when you kind of know 100% eligibility, it's just knowing -- it's knowing -- so that the patient knows immediately if they require some form of treatment, what's it going to cost them, right? That's always been, I think, a difficult thing for the dentist and the dentist says, look, you've got a patient in the chair and you identify the need for a specific treatment.

The patient says, well, how much is it going to cost me, the dentist doesn't know. And so now you're just kind of like, are you just going to trust me to do it, and you're going to be able to pay for it that's a difficult thing because they don't know what type of coverage they have. That is part of our Henry Schein One offering, that whole eligibility process is part of that offering, right. I would also say and this has become an attractive feature to our DSO customers. Business Analytics is taking on a greater importance, getting that dashboard snapshot of kind of certain metrics of how that particular practice is operating and identifying outliers, if you have a group of practices, who are the lower-performing ones in certain metrics versus the higher performing and what can you learn from that in order to improve the operations of that practice.

That's a feature that when we purchased Jarvis Analytics about 4, 5 years ago, we were able to add to the portfolio. And then lastly is kind of the introduction of Detect AI. We've had, I think, very good success with that. Heartland is now using Detect AI in their practices. And Detect AI will allow a dentist to take an X-ray of a patient, bump that X-ray up against a database of X-rays and it will allow them to identify carries, which is kind of a precavity with -- that they can do through the AI tool that might not be detectable by the naked eye.

And that allows for a much more pleasant patient experience in terms of treating that versus treating a full blown cavity that may not be quite so pleasant. So those are all areas. What we've seen, for example, from the -- our customers who are using Detect AI, they are getting meaningful increases in restorative procedures as well as periodontal procedures versus prior to using that product. So that's good information for us to have as we talk to other potential customers there because there's clearly a return. It's a subscription-based service that clearly brings a return. But those are all part of the spectrum of what we're introducing through Henry Schein One.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

Turning back to the specialty side. This has become, thanks to both organic and organic growth, a much bigger segment than I think most would have anticipated. As you think about the organizational goals for your different categories, endo/ortho implants, most companies don't go out and say as long as -- we're #3 is like the rallying cry, but in this case that there's some elements about being a more ubiquitous provider, you're not the market leader. So how do you continue to calibrate your goals thinking back versus last year's Investor Day and where you're executing versus where maybe areas you've fallen short across some of your different specialty categories?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Certainly. We're proud to be #3 given where we came from, right? And it's also -- I think it's important for people to hear that who look at us as a pure distributor because we're not a pure distributor. And the investments we've made on the specialty side, and when we say we're #3, we're referencing implants, we're #2 in endodontic products is that that's about a 1.2 -- specialty is about a $1.2 billion a year portfolio for us, which when you're looking at our revenue of $12 billion to $13 billion feels like a small number.

Given higher manufacturer margins, it's a much more important part of our bottom line. When you collectively take those particular products and add to them Henry Schein One, our technology offering as well as the other value-added services we have, those are all brands or -- that we control. Those are our brands. We're not reliant on a third party. We said in our Investor Day last year, our goal was for that group of products to be generating about 40% of our operating income. In the first quarter of this year, it was just shy of 41%. So we've kind of reached that goal there. If you add in the private label that we mentioned earlier, you add in private label, private label gets you approximately, call it, 10% more of our operating income. So those brands that we collectively control represent half of our operating income, which is very important to us.

So where are some of the areas -- we made a lot of investments last year in specialty. We bought Biotech in France, we bought S.I.N. in Brazil. They really kind of help us fill out both some additional geographic footprint, but also kind of fill out our product portfolio in implants, especially in the U.S., we didn't really have a value implant in the U.S. S.I.N. in Brazil has a value implant that was already approved by the FDA before our acquisition of them and we've been able to introduce that value implant in the U.S. now. And we think that, especially with our DSO customers who are looking to do more kind of basic implant procedures in-house as opposed to referencing them out, they find the value implant to be a more attractive proposition. So those are areas, I think, we've succeeded in.

Orthodontics is still an area that we're trying to get some traction in. Biotech, the company we bought in France that is -- we've kind of talked about that being an implant company, they also had a small clear aligner business, and we're taking a look at that clear aligner business versus our existing clear aligner business and how do we get some scale there, how do we do something that maybe increase that traction in orthodontics. That's probably an area that we'd like to get better at sooner rather than later.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

Got it. And I'll use just ortho and then use this as a pivot over to the medical side. Because obviously, you made a recent acquisition building on to our orthopedics presence on medical, which I'm still getting used to thinking about the totality of the Henry Schein specialty portfolio beyond distribution in private label. Maybe talk a little bit about this acquisition because this is a little bit afield from what Schein's done previously on the medical side, which has been growing like a weed for long before pre-COVID. How are you thinking about this as a building block for potentially building a broader specialty portfolio if you do want to do that within medical?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes. So our investment in TriMed and that was a transaction that we closed just this past April, it is really -- it's orthopedic products that are really at the extremities, right? So it's really kind of the hand and wrist and it's more kind of foot and ankle. It's a different market than if you're getting into hips and knees. There's the Strykers of the world who really kind of have a good hold of that market.

But we saw the extremities as a good way to kind of working our way into the orthopedic market because a lot of those procedures are done at the ambulatory surgical centers on an outpatient basis, which the ASCs are a very important consumer segment for us. So this is something that we can kind of introduce to our ASC customers and we do see it as an opportunity. As we learn more about orthopedics, we'll be able to expand on that and perhaps go into other areas. I don't know if we ever get to the point of going in the hips and knees, but there could be other areas that we could expand into with that.

Similar to what we did with, what we call, our Home Solutions business, also on the medical side. Home Solutions is really a group of products that we are selling to home health care providers. We're not the home health care provider. We're not employing the nurses, but we are supplying products to home health care providers. And that is a subsegment of medical that as a market is growing faster than core medical and it gets better margins than core medical. Between our investment in PRISM a couple of years ago and our investment in Shield last year, we've brought them under a common kind of holdco with common management and that, that will kind of function as our platform. We think we can do more investment in home solutions going forward.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And Home Solutions is a great example of being able to layer on where care is being delivered. But you're already very much positioned well there by being in the complete, non-acute care side of all things distribution and just continue to outpace volume growth. How much do you see your growth across the medical portfolio as site of care driven versus share driven versus general utilization driven?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

It's hard to kind of parse those out I think...

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

(inaudible) yes.

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

I think our general strategy in medical has been follow the patient. Years ago, we actually got out of the hospital business, so to speak, right? Hospitals want to have -- Cardinal is very good at that, right? They want to have 3 pallets dropped on there on a loading dock. They want to be able to place the order at 11:00 at night for 5:00 a.m. delivery. That's not what we're good at. We are better at the small delivery. And as more and more patient procedures work their way out of the hospitals and sort of working their way into the ambulatory surgical center or more and more procedures that were simply being done at physician offices, we really put the focus there.

Now as more patients are being treated at home. We're making that investment into the home as well. Utilization demographics are on our side on this, right? I mean I think that as -- especially in the U.S. as we have an aging population, I heard the other day that more people will turn 65 this year than in any year before or any year after in any of our lives, right? So this is a time that we are -- there's going to be more and more people cared for at home. I think it's how the infrastructure is likely going to address the demand for those types of services. I don't think we're going to be building out nursing homes for all these people. There's going to be a greater emphasis on how do you care -- how do you get care at home as what people are going to want so that -- hence, we're making the investment there.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And thinking about the investments being made, especially on the inorganic side, Henry Schein has long had an M&A core competency, just something I couldn't remotely begin to count the amount of deals I've seen you do announce, et cetera. That being said, more recent acquisitions have been more product oriented versus what was a long legacy of great geographic expansion partnering with leading players in the market. How is your team thinking differently these days about the ROI on a deal given that a payback period on a TriMed, on a biotech is a little different than a payback period on hiring the largest dental distributor in France...

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes. No, it's a great question. And you're right, we do have to look at them a little bit differently. This is part of how do you kind of build out the company to be -- going beyond distribution. And so you do kind of measure the opportunity of a biotech, the implant manufacturer we acquired in France or in S.I.N. the implant manufacturer we acquired in Brazil. You're going to look at that differently than, say, the distribution acquisition we did in 2022 when we bought Midway where that's a fold-in. Midway, we were able to leverage existing infrastructure.

We brought -- we were able to kind of capture some customers, we were able to bring on some really good sales reps and some really good management from that, but we were able to fold them into our infrastructure, and it becomes almost immediately accretive for you. That's a different approach than when you have to kind of step back and say I'm going to buy this manufacturer of implant products. I'm going to -- this is more strategic, I'm going to look at this, so I'm going to have a longer-term horizon on some of these things. But that is -- if it fits in with our strategic plan, it becomes something that, that is attractive to us, and we still think we're getting a good price, and we're confident we can deliver the returns that we're modeling out and that's what's driving these acquisitions.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

And then with regards -- once the acquisitions are brought in, especially on the specialty side, any changes (inaudible) sales infrastructure and how the sales force is going to market or is it because of penetrating different areas of practitioners that's not necessarily case?

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Yes, any changes there would be modest changes, right? It would be more -- you might train up your existing sales force a little more on any unique aspects of the product line of some of these businesses that are coming in which can happen on the implant side. You can't get some uniqueness to product, but it would be restricted to that.

Michael Aaron Cherny - *Leerink Partners LLC, Research Division - Senior MD & Senior Research Analyst*

Awesome. Well, we're just about out of time. So Ron, thanks so much for joining us. Thanks, everybody.

Ronald N. South - *Henry Schein, Inc. - Senior Vice President & Chief Financial Officer*

Very good. Thank you, Mike.